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SUBJECT: KOSOVO: DONORS CONFERENCE HIGHLIGHTS PROGRESS,
EXCEEDS EXPECTATIONS

11. (SBU) SUMMARY: The Kosovo Donors Conference held in Brussels on July 11 garnered 1.2 billion euro to support Kosovo's socio-economic development and gave the Kosovo Government a high-profile opportunity to tell its story, informing donors about progress made since independence and of its future plans and commitments. The EU and U.S. led pledging with 508 million euro and USD 402.9 million, respectively. Other significant contributors were Germany with 100 million euro, Switzerland with 50 million euro, Turkey with 30 million euro and Saudi Arabia with a USD 50 million "soft loan." Some donors expressed interest in providing budget support and other debt support through two World Bank trust funds. Donors and international institutions both urged the government to take quick and decisive action on the critical energy sector and to improve donor coordination. On the whole, the Donors Conference exceeded expectations both in terms of the financial support provided and the impressions donors came away with regarding Kosovo's seriousness to build a democratic, multi-ethnic state, squarely on the road to EU integration. We will work closely with the government to ensure that these funds are spent to keep Kosovo moving forward. END SUMMARY.

12. (U) The Government of Kosovo used the July 11 Donors Conference -- the first large-scale public opportunity since independence -- to inform the international community on progress made and to present its future plans. Prime Minister Hashim Thaci opened the conference, addressing an audience that included USAID Administrator and Director of Foreign Assistance Henrietta Fore, European Commissioner for Enlargement Olli Rehn, International Civilian Representative Pieter Feith, participants from all EU member states, members of the European Parliament, international donors including Switzerland, Korea, Norway, Japan, Canada, Israel, Kuwait, Turkey and Saudi Arabia, international financial institutions (IFIs), UN agencies, NATO, and other regional organizations. Thaci told the group "Kosovo is a country of new hope, new vision and new opportunities," and vowed to make Kosovo a modern, democratic, multi-ethnic state. With the goal of making promises a reality, he said that his government is committed to fully implementing the Ahtisaari Plan, improving governance, entrenching the rule of law, and enhancing social stability. Thaci said Kosovo has the political will, but significant assistance is needed to realize these goals. He

also acknowledged that achieving success would require Kosovo's leaders "to show maturity and exercise restraint and patience."

13. (U) Commissioner Rehn praised Kosovo's progress thus far and said that the Donors Conference underscored the European Union's commitment to Kosovo's future and that it is important that Europe match its political engagement with concrete funding. To this end, the EU pledged 508 million euro over three years in support of Kosovo's socio-economic development. Rehn lauded the GOK's work on the Medium Term Expenditure Framework (MTEF), calling it a sound document that effectively details the government's political and funding priorities. Rehn voiced his concern, echoed by the IFIs and other donors, that close coordination would be necessary to ensure that Kosovo effectively utilize the donor funds.

Kosovo's Reform Agenda

14. (U) Aside from confirming donor commitment to Kosovo, the conference provided a venue for discussion of Kosovo's reform agenda and financing needs. Key elements of revolved around fostering an environment conducive to private sector growth and employment generation in the formal sector, investing in human capital (especially through better health and education), and enhancing essential infrastructure (particularly energy and transport) and public service delivery. Education Minister Enver Hoxhaj underscored the Government's commitment to provide equal access to education, "necessary for building a cohesive and multi-ethnic state."

PRISTINA 00000388 002 OF 002

Donors and the IFIs expressed concern over the lack of progress made in the energy sector and urged the Government to take meaningful steps to stop theft and improve electricity billing and collection as well as the overall management of the Kosovo Electric Corporation (KEK). Donors noted that the current situation is a strain on the public budget and a major obstacle to economic growth. The World Bank urged Kosovo to take decisive action on development of the Sibovc lignite mine and on the construction of the large Kosovo C lignite-powered plant to ensure a reliable energy supply. Minister of Energy and Mines Justina Pula said her government will work to make sure that Kosovo does this, and said steps were underway to purchase new equipment, refurbish KEK and develop the Sibovc mine.

Pledging

15. (U) USAID Administrator and Director of Foreign Assistance Henrietta Fore opened the pledging session, in which the United States committed USD 402.9 million. Thanking Congress for bilateral support to Kosovo, she said the country is a good investment and the USG is committed to helping it realize its goals of economic development and integration into Europe. She echoed Rehn's comments that donor coordination is key to ensuring effective delivery of assistance. Fore also said that more must be done to improve targeting of assistance, strengthen monitoring capacity, provide current information on programs, reduce transaction costs, and provide greater amounts of budget support.

16. (U) The EU and the U.S. contributions comprised the bulk of the 1.2 billion euro raised for 2008-2010. Other significant contributors were Germany (100 million euro, 2008-10), Switzerland (48 million euro, 2008-10), Turkey (30 million euro, 2008-10), Sweden (12 million euro, 2008-10), Saudi Arabia USD 50 million "soft loan" (long-term, low-rate loan for health, infrastructure, education), United Kingdom (23 million pounds, 2008-11) and Norway (16 million euro, 2008-11).

World Bank Trust Funds

17. (SBU) Prior to the conference the World Bank set up two trust funds in support of Kosovo's development -- one for budget support and the other for debt relief. A number of countries said they would provide contributions to the budget support trust fund. The USG will provide USD 150 million to the debt trust fund, and Austria, Denmark and France said they would consider contributions to this fund "if conditions are met." (Comment: The World Bank speculates that since "conditions" (novation of the debt by Serbia) are not likely in the near term, these promises to contribute may never materialize. End comment).

18. (SBU) COMMENT: Exceeding expectations, the Kosovo Donors Conference not only garnered funds to meet the budget gap, but provided the government with a welcome, high-profile opportunity to demonstrate its commitment to make Kosovo a functional and multi-ethnic state squarely on the path to Europe. Also significant, the MTEF won large praise from the IFIs and donors, who are now more confident that investment in Kosovo is a sounder decision. Proof of this growing confidence is that some donors indicated they will provide direct budget support, rather than technical assistance, believing that Kosovo has the tools to effectively manage and spend this money. As evidenced by the ambitious MTEF, the government has significant challenges to meet over the next three years, including building new institutions, reforming the energy and education sectors, improving infrastructure, and addressing delivery of social services. We will work closely with the Government to ensure that it makes the right decisions to keep Kosovo moving forward.
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